Imperial Oil Limited

and subsidiary companies

Interim report to shareholders for nine months ending Sept. 30, 1981

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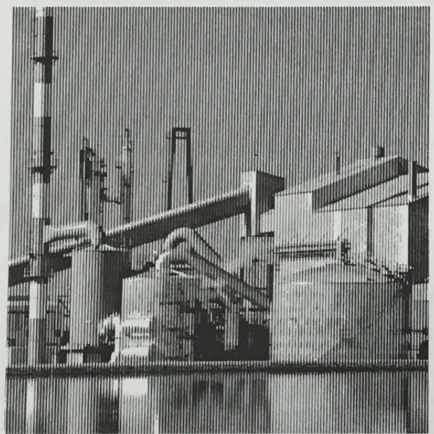
Performance highlights	Third quarter 1980	Third quarter 1981	Nine months to Sept. 30 1980	Nine months to Sept. 30 1981
Financial (millions of dollars)				
Earnings from operations	181	**157**	481	**416**
Total earnings, including unusual items	262	**157**	562	**416**
Revenues	1587	**2185**	4421	**5975**
Funds from operations	291	**303**	837	**840**
Capital and exploration expenditures	225	**235**	679	**689**
Earnings from operations per share (dollars)	1.15	**1.00**	3.41	**2.65**
Total earnings per share (dollars)	1.67	**1.00**	3.99	**2.65**
Dividends per share (Class A) (dollars)	0.35	**0.35**	1.05	**1.05**
Operating				
Gross production				
Crude oil and natural-gas liquids (thousands of m³/d)	33.8	**28.4**	35.1	**29.0**
Natural gas (millions of m³/d)	5.8	**6.5**	8.0	**7.5**
Crude oil processed (thousands of m³/d)	68.8	**70.1**	71.1	**68.1**
Sales				
Natural gas (millions of m³/d)	6.5	**7.0**	8.7	**8.2**
Petroleum products (thousands of m³/d)	69.9	**71.7**	69.0	**68.3**
Chemicals (thousands of tonnes per day)	5.6	**5.5**	6.0	**6.3**



Esso Chemical Canada's fertilizer plants at Redwater, Alta., are undergoing a $50-million expansion. A new $400-million plant is also under construction here.

Operating earnings for the nine months were $416 million. This is 14 percent lower than operating earnings for the corresponding period last year. Total nine-months' earnings last year included a non-recurring gain of $81 million resulting from Alberta legislative action (Note 3).

Capital and exploration expenditures were $689 million for the period. Operating working capital increased $506 million, about $300 million of which replaced inventories at higher prices. These requirements of $1195 million exceeded funds generated by $347 million, which was met from cash reserves.

Earnings from natural resources were down sharply from 1980, as expected. The decrease reflects the effects of the National Energy Program (NEP), declining productivity of conventional oil fields, and operating problems. The NEP's petroleum and gas revenue tax reduced earnings by $66 million. Declining production of conventional crude and associated natural gas from mature fields reduced earnings some $48 million. Syncrude earnings were positive for the period. Major repairs and maintenance in the first six months held shipments for the nine months at 12 000 m³/d. They were back to normal at 18 000 m³/d for the third quarter. Operating problems closed the Gays River mine in Nova Scotia in August and a capital loss was charged to earnings.

Earnings from petroleum products were up $84 million for the period. They included an "inventory profit" of about $125 million, after taxes of $110 million were paid. This inventory profit was due primarily to federal-government charges on crude purchases. Costs of refining heavier, higher-sulfur crudes were greater. Sales volumes of motor gasolines and heating fuels were down, consistent with industry trends.

Earnings from chemicals were down 24 percent. Petrochemical margins were lower because higher feedstock costs could not be recovered by all products in a highly competitive market. Fertilizer earnings were reduced by unfavorable weather and high interest rates, which affected farming. Expenses on major capital projects also increased.

Investment income increased significantly through short-term investment of funds.

Operating earnings per share, on the basis of 157 million shares outstanding, were $2.65 for the nine months compared to $3.41 for the same period last year, which was based on 141 million shares.

Operating earnings for the third quarter were $157 million, compared to $113 million for the second quarter and $181 million for the same quarter last year. Investment spending, including increases in operating working capital, was $442 million and exceeded funds generated by $135 million.

Consolidated statement of earnings
(unaudited)

	Third quarter 1980	Third quarter 1981	Nine months to Sept. 30 1980	Nine months to Sept. 30 1981
	millions of dollars			
Revenues				
Crude oil	114	**116**	231	**350**
Natural gas	34	**42**	135	**139**
Petroleum products	1175	**1714**	3285	**4512**
Chemicals	176	**207**	572	**666**
Investment income and other operating revenue	88	**106**	198	**308**
	1587	**2185**	4421	**5975**
Expenses				
Exploration	52	**44**	161	**135**
Purchases of crude oil and products	704	**1155**	1984	**3091**
Operating	197	**263**	553	**778**
Marketing and administration	145	**159**	413	**457**
Interest	13	**18**	45	**46**
Depreciation and amortization	37	**76**	116	**177**
Commodity, property, and other taxes	112	**149**	285	**381**
Petroleum and gas revenue tax	–	**20**	–	**66**
	1260	**1884**	3557	**5131**
Earnings before income taxes and unusual items	327	**301**	864	**844**
Income taxes	146	**144**	383	**428**
Earnings before unusual items	181	**157**	481	**416**
Unusual items, net of income taxes (3)	81	**–**	81	**–**
Earnings for the period	262	**157**	562	**416**

Consolidated statement of changes in financial position
(unaudited)

	Nine months to Sept. 30 1980	Nine months to Sept. 30 1981
	millions of dollars	
Funds (1) were provided from:		
Operations (2)	837	**840**
Proceeds from sales of property, plant, and equipment	16	**8**
	853	**848**
Funds were used for:		
Dividends	146	**165**
Reduction of long-term debt	14	**8**
	160	**173**
Funds remaining for reinvestment	693	**675**
Investment		
Capital and exploration expenditures	679	**689**
Increase in operating working capital (1)	318	**506**
	997	**1195**
Deficiency of funds before financing	304	**520**
Financing		
Capital leases	–	**70**
Capital stock	866	**6**
	866	**76**
Increase (decrease) in funds	562	**(444)**

Approved by the board

Chairman and chief executive officer

President

Operating statistics

	Third quarter 1980	Third quarter 1981	Nine months to Sept. 30 1980	Nine months to Sept. 30 1981
Exploration and development				
Gross exploratory wells drilled				
Oil	4	**1**	8	**6**
Gas	18	**10**	85	**34**
Dry	9	**2**	27	**11**
Gross development wells drilled				
Oil	11	**8**	53	**20**
Gas	16	**32**	42	**44**
Dry	0	**3**	9	**7**
Gross production				
Crude oil (thousands of m³/d)				
Conventional crude and natural-gas liquids	28.7	**22.3**	31.1	**24.7**
Syncrude	4.1	**4.5**	3.1	**3.0**
Cold Lake pilot	1.0	**1.6**	0.9	**1.3**
	33.8	**28.4**	35.1	**29.0**
Natural gas (millions of m³/d)	5.8	**6.5**	8.0	**7.5**
Refining				
Crude oil processed at company refineries (thousands of m³/d)	68.8	**70.1**	71.1	**68.1**
Refinery capacity utilization at Sept. 30 (percent)	90	**91**	93	**89**
Sales				
Petroleum products (thousands of m³/d)				
Gasolines	31.2	**30.6**	27.7	**27.2**
Middle distillates	16.6	**18.3**	21.2	**21.0**
Heavy fuel oils	5.5	**6.3**	5.7	**6.1**
Lubricants, greases, specialty oils and other	16.6	**16.5**	14.4	**14.0**
	69.9	**71.7**	69.0	**68.3**
Natural gas (millions of m³/d)	6.5	**7.0**	8.7	**8.2**
Chemicals (thousands of tonnes per day)				
Petrochemicals	2.9	**2.7**	2.6	**2.8**
Fertilizer	1.3	**1.4**	1.9	**2.1**
Building materials	1.4	**1.4**	1.5	**1.4**
	5.6	**5.5**	6.0	**6.3**

Shareholder information

(unaudited)

	Third quarter 1980	Third quarter 1981	Nine Months to Sept. 30 1980	Nine Months to Sept. 30 1981
Average number of Class A and B shares outstanding, weighted monthly (thousands)	156 827	**157 067**	140 877	**157 004**
Share prices (Class A) (dollars)				
High	47⅞	**38¼**	57½	**38¼**
Low	37¼	**24½**	35⅛	**24½**
Close at Sept. 30	41	**26⅝**	41	**26⅝**
Dividends paid (millions of dollars)	55	**55**	146	**165**
Dividends per share (dollars)	0.35	**0.35**	1.05	**1.05**
Earnings from operations, per share (dollars)	1.15	**1.00**	3.41	**2.65**
Total earnings per share (dollars)	1.67	**1.00**	3.99	**2.65**
Funds from operations per share (dollars)	1.86	**1.93**	5.94	**5.35**

Notes to the financial statements

(1) Funds represent cash, marketable securities, and short-term loans, less short-term notes. Operating working capital is working capital less funds.

(2) Funds from operations comprise earnings before exploration expenses, adjusted for depreciation, deferred income taxes, and other items not affecting funds.

(3) On April 1, 1980, the Alberta Petroleum Marketing Commission began purchasing, at the wellhead, all crude produced from provincial Crown leases; since that date, the company has been recording net crude production from those leases as sales to the commission. Consequently, the earnings from crude production are now calculated from wellhead sales rather than after the crude has been processed and sold as refined products. As a result, the company recorded a one-time, non-cash increase in net earnings of $81 million, after income taxes of $45 million.

Activities of particular interest

Norman Wells to go ahead

The company's plan to increase oil production at Norman Wells, N.W.T., from about 500 m^3/d to 4800 m^3/d has received approval, conditional on a two-year delay in substantive field construction and a two-and-a-half-year delay in pipeline construction.

Cost of the oil-field expansion is estimated to be $800 million and start-up is expected in 1985.

More than $100 million in business opportunities will be available to northerners during construction, plus a further $8 million annually during operations. A joint company will also be formed with a native development corporation to supply services.

Energy agreement leaves Cold Lake still in doubt

The Ottawa-Alberta energy agreement left the company's Cold Lake project still in suspension. The project would produce almost as much oil as the combined total of the two oil-sands plants now in operation. The company is discussing terms with both governments to revive the project.

The energy agreement has many positive aspects. It provides a stable framework for planning and provides incentives to increase oil exploration and development. However, revenues from currently-producing fields will not increase greatly and revenues from the oil sands, the Arctic, and the Atlantic are still far off.

Prospects for earnings and cash flow have not been changed by the agreement and the company believes that, for the industry as a whole, they may be too little to achieve oil self-sufficiency by 1990. The agreement increases the need for working capital to finance inventories at higher prices.

The agreement does not affect the company's operations in minerals, the refining and marketing of petroleum products, and chemicals.

Western exploration reduced

Drilling throughout western Canada is down, due to the National Energy Program. The company participated in only three oil wells and 34 gas wells in the nine months, including eight gas wells drilled with Canadian Hunter Exploration Ltd. and seven with Canadian Hunter and Sulpetro Limited near Elmworth.

Issungnak results encouraging

A well drilled to follow up the Issungnak discovery made in the spring of 1980 in the Beaufort Sea has recovered oil and gas at encouraging rates. Drilled at an angle to a vertical depth of 4137 m, the well reached 1.3 km north of the surface location. Gas, oil, or both were recovered from 13 separate sands having a total "pay" thickness of about 85 m of gas and 20 m of oil. Additional drilling is needed to determine reserves and producing capacity.

The company's interest in this discovery is 50 percent.

During the quarter, the company began drilling at Alerk from an artificial island 58 km east-southeast of Issungnak. Two other islands were being built for future drilling; Itiyok, 12 km southeast of Issungnak, and West Atkinson, 10 km west-northwest of the company's 1970 oil discovery at Atkinson Point.

The company also completed 750 km of seismic surveying to further define prospects beneath the Beaufort Sea, and 2900 km of surveys over its holdings in the Atlantic, 160 km east of Hibernia.

The company proposes to farm out a portion of its interest in some prospects in the Beaufort Sea and the Atlantic. This program would see at least 11 wells drilled in these areas over seven years.

Strike halts coal production

Coal production at Byron Creek Collieries Limited, which was acquired by the company early this year, has been halted by a strike since April 29. Negotiations are continuing.

Lead-zinc mine closes

Operations ceased in August at the company's lead-zinc mine at Gays River, N.S. The irregular nature of the ore body and severe water problems reduced the mine's output. Despite efforts to solve these problems, the project suffered substantial losses since it began operating in 1979.

A year-long program will test the feasibility of reopening the mine. In the meantime, the operation has been mothballed and the company is assisting employees to find other work.

New division formed: Esso Petroleum Canada

Esso Petroleum Canada has been formed to manage the company's operations in crude-oil supply and the refining, distribution, and marketing of petroleum products. The division began functioning on Aug. 1.

President of Esso Petroleum Canada is W. A. West and executive vice-president is M. G. Handford, both vice-presidents of Imperial.

The division will integrate Imperial's operations in petroleum products more effectively and provide greater flexibility in dealing with changes in this segment of the company's business.

New ethylene venture

With Alberta Energy Company Ltd. and Hudson's Bay Oil and Gas Company Limited, Esso Chemical has applied for a permit to build a $700-million ethylene plant with a capacity of 700 000 tonnes per year 8 km south of Redwater, Alta.